

SCOFIELD RESERVOIR SPECIAL SERVICE DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

SCOFIELD RESERVOIR SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF CARBON COUNTY)
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FOR THE YEAR ENDED DECEMBER 31, 2005

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ACCOUNTANTS' REVIEW REPORT

Board of Directors
Scofield Reservoir
Special Service District
Price, Utah 84501

We have reviewed the accompanying financial statements of the business-type activities of Scofield Reservoir Special Service District (a component unit of Carbon County), as of December 31, 2005, and the related statements of revenues and expenses and changes in net assets and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Scofield Reservoir Special Service District.

A review consists principally of inquiries of personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The Management's Discussion and Analysis, as listed in the financial section of the table of contents, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING



Price, Utah

July 25, 2006

**SCOFIELD RESERVOIR SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF CARBON COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Our discussion and analysis of Scofield Reservoir Special Service District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2005. All of the financial activity results from "business-type" activities.

FINANCIAL HIGHLIGHTS

- ❖ Total operating revenues from business activities were \$42,324 in 2005 compared to \$48,866 in 2004. A decrease of \$6,542 or 13.4%.
- ❖ Total operating expenses were \$70,902 in 2005, compared to \$74,547 in 2004. A decrease of \$3,645 or 4.89%. The major decrease was from repairs and maintenance.
- ❖ Non-operational revenues and expenses for the district were as follows:
 - a. Interest expense in 2005 totaled \$2,252 compared to \$2,252 for 2004.
 - b. Interest earned in 2005 totaled \$8,222 compared to \$4,348 for 2004.
 - c. Net assets during 2005 decreased by \$22,608 compared to a decrease in 2004 by \$23,585. Change in net assets is detailed in the District's Financial Reports.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The financial reports; Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows, comprise pages 9-13. Standard and acceptable accounting practices are followed in preparation of these reports. The purpose of the financial reports is to identify revenues and expenses resulting from business activities. The net income or (loss) from operations, adjusted for depreciation, identifies the performance of the District. Certain key financial ratios taken from the Statement of Net Assets help identify financial strength and liquidity. Since the District is operated as an enterprise fund, there are no fund statements presented because all operations of the District are reported using the accrual method of accounting.

REPORTING THE DISTRICT BUSINESS OPERATIONS

Our analysis of the District as a whole begins on page 9. The key financial reports provide the accounting from which reports herein are created. The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Fund Net Assets summarize the District's business operations for the year and provide a basis for assessing financial strengths and weaknesses. From these reports, trends are monitored and budgets are prepared for future months. These reports are prepared using the accrual accounting method, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or payment made.

REPORTING THE DISTRICT BUSINESS OPERATIONS (Continued)

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets, the District shows all of the activities in one fund.

- ❖ Business-type activities – The District charges customers for their individual sewer fees. The charges are considered to cover most of the cost of providing this service. The District charges those who reside within the District's boundaries, which include the Scofield and Clear Creek areas.

REPORTING THE DISTRICT'S SIGNIFICANT FUND

The District has only one fund, which accounts for the activity of the District. The entity-wide financial statements, which begin on page 9, provide detailed information about the operations of the District as a whole. The District's only fund is operated as an enterprise fund. Enterprise funds are reported using an accrual accounting method, which records expenses when they are incurred and records revenues when they are earned. The District does not have any governmental type funds.

THE DISTRICT AS A TRUSTEE

The District does not hold any funds or property in a trustee capacity.

THE DISTRICT'S KEY FINANCIAL REPORTS

NET ASSET REPORT

	BUSINESS-TYPE ACTIVITIES 2004	BUSINESS-TYPE ACTIVITIES 2005
<u>ASSETS</u>		
Current and other assets	\$ 257,942	\$ 257,906
Capital assets	778,814	747,719
Total assets	<u>\$ 1,036,756</u>	<u>\$ 1,005,625</u>

THE DISTRICT'S KEY FINANCIAL REPORTS (Continued)

NET ASSET REPORT (Continued)

	<u>BUSINESS-TYPE ACTIVITIES 2004</u>	<u>BUSINESS-TYPE ACTIVITIES 2005</u>
<u>LIABILITIES</u>		
Current liabilities	\$ 10,457	\$ 10,702
Noncurrent liabilities	<u>74,923</u>	<u>66,155</u>
Total liabilities	<u>\$ 85,380</u>	<u>\$ 76,857</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of debt	\$ 695,128	\$ 672,582
Unrestricted	<u>256,248</u>	<u>256,186</u>
Total net assets	<u>\$ 951,376</u>	<u>\$ 928,768</u>

Net Assets of the District are \$928,768. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – are \$256,186. These net assets are used to finance the continuing operations of providing services to the water users.

A key financial ratio - the Current Ratio - is calculated by dividing current assets by current liabilities. This ratio is an indicator of liquidity and ability to pay current operational bills. The ratio for the year ending December 31, 2005 is 24.10, compared to 24.67 for the year ended December 31, 2004. Although the ratio has decreased during the year, the District still maintains a high ratio, which indicates a very strong liquidity position.

CHANGES IN NET ASSETS

	BUSINESS-TYPE ACTIVITIES 2004	BUSINESS-TYPE ACTIVITIES 2005
REVENUES		
Program revenues:		
Charges for services	\$ 48,866	\$ 42,324
General revenues:		
Other general revenues (interest)	4,348	8,222
Total revenues	<u>\$ 53,214</u>	<u>\$ 50,546</u>
EXPENSES		
Program expenses:		
Professional fees	\$ 9,170	\$ 8,308
Supplies	470	761
Utilities and telephone	3,920	3,897
Insurance	1,400	1,450
Repairs and maintenance	18,492	15,391
Contracted services	10,000	10,000
Interest expense	2,252	2,252
Depreciation	31,095	31,095
Total expenses	<u>\$ 76,799</u>	<u>\$ 73,154</u>
Change in net assets	<u>\$ (23,585)</u>	<u>\$ (22,608)</u>
Net assets - beginning	\$ 974,961	\$ 951,376
Net assets - ending	<u>951,376</u>	<u>928,768</u>
Change in net assets	<u>\$ (23,585)</u>	<u>\$ (22,608)</u>

The District's operational goal for future years is to continue to strive to run the District's operations from charges for services and minimal other governmental funds. We realize that increasing profitability will come in the form of increasing rates, but we will need other governmental assistance for upgrades and/or improvements.

CASH SOURCES AND USES

CASH SOURCES AND USES:

Beginning cash balance as of January 1, 2005	\$ 257,942
Change in net assets	\$ (22,608)
Depreciation (source of cash)	31,095
Accounts payable increase (source of cash)	79
Accrued interest decrease (use of cash)	(53)
Principal payment on debt (use of cash)	(8,549)
Total change in net assets	\$ (36)
Ending cash balance as of December 31, 2005	\$ 257,906

Use of all funds are controlled and authorized by the District's Board of Directors. The Board of Directors have delegated the day-to-day operations to the District's chairman. The chairman follows the spending limits and budgets as approved by the Board of Directors. All major capital expenditures are approved by the Board of Directors. The Board approves an annual operational budget and forwards it to the Carbon County Commissioners and also submits copies of the budget to the State Auditor as required by Utah State law.

BUSINESS ACTIVITIES AND PURPOSES

Revenues for the District are generated by providing a waste disposal system for the residents in and around the Scofield Reservoir area. (namely Scofield and Clear Creek) This is the only source of operating revenue that is received by the District. The District's waste disposal facility provides residents of our District with a valuable resource. The objective of the District is to continue to provide the necessary waste disposal services mentioned, independently (not dependent), of other organizations. Additional sources of funds have been needed and used in past years to cover shortfalls for capital expenditures, but the Board of Directors has addressed the future projects and made the necessary changes needed to accomplish their goals and objectives.

DEBT MANAGEMENT

As of December 31, 2005, the District had \$75,137 in a loan from the Community Impact Bonus Loan program. The debt was entered into by the Board in 1989, for improvements and upgrades on the sewer system and waste disposal facility. More detailed information about the District's long-term liabilities is presented in note 4, in the footnotes to the financial statements.

BUDGETARY HIGHLIGHTS

The 2005 budget was adopted for the current year on December 9, 2004. Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. The original budget amount was \$ 77,440. During the year, the budget was amended to \$ 87,440. After adjustments, the actual expenditures amounted to \$ 81,915. The budget was under spent by \$ 5,525.

CAPITAL ASSETS

As of December 31, 2005, the District had net capital assets of \$747,719. There were no capital asset additions in the current year. Future budgets will account for anticipated equipment purchases. The budget for 2006 does not estimate or anticipate capital expenditures. The following table shows the balance of capital assets as of December 31, 2005, net of depreciation.

Capital Assets at Year-end (Net of Depreciation) 2005

<u>Business - type activities</u>	<u>2004</u>	<u>2005</u>
Land	\$ 16,128	\$ 16,128
Sewer systems and improvements	<u>762,686</u>	<u>731,591</u>
Net capital assets	<u>\$ 778,814</u>	<u>\$ 747,719</u>

The District did not have major additions that meet the criteria for capitalization for the current year. Major expenditures are not included in the 2006 budget.

ECONOMIC FORECAST AND FUTURE BUDGET

The District is anticipating that in the future, the waste disposal system will need some upgrades, but is unsure when this will actually occur. A significant increase in capital expenditures will need to take place when this event happens. We are constantly monitoring and maintaining the waste disposal system. We realize that the majority of the system has been in operation for over 15 years and if any part of the system becomes nonfunctioning, capital expenditures would increase significantly. Our future budget anticipates that a constant maintenance program will continue to be funded and additional capital expenditures if needed.

While the District does not have any immediate plans to upgrade the facility, the District realizes that an increase in maintenance costs might warrant further review and study of the operations. The District understands that their primary function is to provide a waste disposal system for those in the Scofield area and they will continue to execute the necessary plans to maintain the facility in sufficient working order.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our community and customers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Chairman at 120 East Main Price, Utah, 84501.

SCOFIELD RESERVOIR SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF CARBON COUNTY)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

WASTE DISPOSAL SYSTEM

ASSETS

Current Assets:

Cash in banks	\$ 19,684
Investments	238,222
	<hr/>
Total current assets	\$ 257,906
	<hr/>

Noncurrent Assets:

Capital Assets:

Land	\$ 16,128
Sewer systems and improvements	1,243,794
Less: accumulated depreciation	(512,203)
	<hr/>
Total noncurrent assets	\$ 747,719
	<hr/>

Total assets	\$ 1,005,625
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"See accompanying notes and accountants' report."

SCOFIELD RESERVOIR SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF CARBON COUNTY)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

WASTE DISPOSAL SYSTEM

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 1,247
Accrued interest	473
Current portion of long-term debt	8,982

Total current liabilities	\$ 10,702
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Noncurrent liabilities:

Bonus loan payable	\$ 66,155
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Total noncurrent liabilities	\$ 66,155
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Total liabilities	\$ 76,857
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Net Assets:

Investment in capital assets, net of related debt	\$ 672,582
Unreserved	256,186

Total net assets	\$ 928,768
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Total liabilities and net assets	\$ 1,005,625
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"See accompanying notes and accountants' report."

SCOFIELD RESERVOIR SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF CARBON COUNTY)
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND
	<u>WASTE DISPOSAL SYSTEM</u>
Operating Revenues:	
Charges for services	\$ 42,324
Total operating revenue	<u>\$ 42,324</u>
Operating Expenses:	
Professional services	\$ 8,308
Supplies	761
Utilities and telephone	3,897
Insurance	1,450
Repairs and maintenance	15,391
Contracted services	10,000
Depreciation	31,095
Total operating expenses	<u>\$ 70,902</u>
Operating income (loss)	<u>\$ (28,578)</u>
Non-operating Revenues (Expenses):	
Interest income	\$ 8,222
Interest expense	(2,252)
Total non-operating revenues (expenses)	<u>\$ 5,970</u>
Change in net assets	<u>\$ (22,608)</u>
Total net assets, January 1, 2005	<u>951,376</u>
Total net assets, December 31, 2005	<u><u>\$ 928,768</u></u>

"See accompanying notes and accountants' report."

SCOFIELD RESERVOIR SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF CARBON COUNTY)
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

WASTE DISPOSAL SYSTEM

Cash flows from operating activities:

Cash received from customers	\$ 42,324
Cash payments to suppliers for goods and services	(39,781)
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Net cash provided (used) by operating activities	\$ 2,543
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Cash flows from capital and related financing activities:

Principal paid on debt	\$ (8,549)
Interest paid on debt	(2,252)
	<hr/>
Net cash provided (used) for capital and related financing activities	\$ (10,801)
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Cash flows from investing activities:

Interest on investments received	\$ 8,222
	<hr/>

Net increase (decrease) in cash and cash equivalents	\$ (36)
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Cash and cash equivalents at beginning of year, January 1	257,942
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Cash and cash equivalents at end of year, December 31	\$ 257,906
	<hr/>

"See accompanying notes and accountants' report."

SCOFIELD RESERVOIR SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF CARBON COUNTY)
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

WASTE DISPOSAL SYSTEM

Reconciliation of operating income to net cash provided
(used) by operating activities:

Operating income (loss)	\$	(28,578)
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Adjustments to reconcile operating income to net cash
provided (used) by operating activities:

Depreciation	\$	31,095
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Change in assets and liabilities:

Increase in account payable	79
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Decrease in accrued interest payable	(53)
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Total adjustments	<u>31,121</u>
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Net cash provided (used) by operating activities	<u>\$</u>	<u>2,543</u>
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"See accompanying notes and accountant's report."

**SCOFIELD RESERVOIR SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF CARBON COUNTY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

A. Reporting Entity

The Scofield Reservoir Special Service District was organized under State of Utah Statute. A Board of Directors has all powers and duties in the operation of the District. The Board's authority is delegated from the Carbon County Commissioners and includes: the power of eminent domain, the power to enter into contracts, issue revenue bonds, selection of domicile, setting of meeting times, adoption of regulations and bylaws for its operations and the adoption of budgets. The Scofield Reservoir Special Service District's primary purpose and function is to provide a waste disposal system for the residents in and around the Scofield Reservoir area.

The accompanying financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria the District has no component units, but it is considered a component unit of Carbon County.

B. Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets, the statement of revenues, expenses and changes in fund net assets and the statement of cash flows. The District is considered a special-purpose government engaged only in business-type activities. It is classified as a proprietary fund type and operates as an enterprise fund. Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that its costs in providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges. The function of the District is to provide waste disposal services to the population, which lives in and around the Scofield Reservoir area. The financial statements of the District consist only of an enterprise fund and neither fiduciary funds nor component units that are fiduciary in nature are included.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for waste disposal services. The District also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. **Capital Assets**

Capital assets, which include land and sewer systems and improvements, are reported in the government-wide financial statements. Capital assets are defined by the District, as an asset with an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Sewer systems and improvements of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Sewer Systems/Improvements	5 - 40 years

E. **Budgetary Data**

The system of budgeting used by the District complies primarily with the procedures outlined in the "State of Utah Uniform Accounting Manual for Special Districts", which is in accordance with generally accepted accounting principles. Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations lapse at year-end.

The District follows the budgetary practices and procedures required by Utah State law. These requirements are summarized as follows:

1. A formal budget is adopted for the enterprise fund.
2. The budget is a complete financial plan, which identifies all estimated revenues and all expenditures for the year. The budget must balance, that is estimated revenues and other financing sources must equal expenditures.
3. On or before the first regularly scheduled meeting of the governing body in November, the District Treasurer prepares a tentative budget and submits it to the District Board. After the Board reviews the budget the District Secretary submits the budget to the Carbon County Commissioners.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. **Budgetary Data (Continued)**

4. The tentative budget is a public record and is available for public inspection for at least seven days prior to public hearings held to consider adoption of the budget.
5. Notice of the scheduled public hearings is published at least seven days prior to the meeting.
6. A public hearing is held on the tentatively adopted budget. Members of the public may comment on the budget and recommend changes to the District Board.
7. The District Board considers the comments made by the public and makes final adjustments to the budget.
8. By December 31, the District Board adopts the budget by resolution. A copy of the budget is certified by the County Auditor and is filed with the State Auditor within thirty days of adoption. A certified copy of the budget is available for public inspection.
9. The budget may be amended to reflect changes in circumstances, which occur during the year.

F. **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition including investments in the Public Treasurers' Investment Fund (PTIF) to be cash and cash equivalents.

Investments are reported at fair value. The PTIF's reported value is basically the same as the fair value of the Fund's shares.

G. **Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. **Compensated Absences**

The District does not have a policy in effect for payment of accrued vacation and/or sick leave.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

I. **Net Asset Classifications**

In the government-wide financial statements, net assets are displayed in three components:

1. Investment in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

2. **DEPOSITS AND INVESTMENTS**

Deposits and investing for the District are governed by the Utah Money Management Act (Utah Code, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a “qualified depository”. The Act defines a “qualified depository” as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At December 31, 2005, the District’s bank balance of cash on deposit was \$19,456; of this amount \$19,456 was insured.

2. DEPOSITS AND INVESTMENTS (Continued)

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of December 31, 2005, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 238,222	\$ 238,222			
Total Investments	<u>\$ 238,222</u>	<u>\$ 238,222</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>

2. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The District also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has not adopted a formal policy with regards to credit risk on investments but the District informally follows the policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

At December 31, 2005, the District had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
State of Utah Public Treasurer's Investment Fund	\$ 238,222				\$ 238,222
Total	<u>\$ 238,222</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 238,222</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

2. **DEPOSITS AND INVESTMENTS (Continued)**

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. As of December 31, 2005, the District had \$238,222 invested in the Public Treasurer's Investment Fund and was held by them.

3. **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	<u>\$ 16,128</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 16,128</u>
Capital assets being depreciated:				
Sewer systems and Improvements	<u>\$ 1,243,794</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 1,243,794</u>
Less accumulated depreciation for:				
Sewer systems and Improvements	<u>\$ 481,108</u>	<u>\$ 31,095</u>	<u></u>	<u>\$ 512,203</u>
Total capital assets, being depreciated, net	<u>\$ 762,686</u>	<u>\$ (31,095)</u>	<u>\$...</u>	<u>\$ 731,591</u>
Business-type activities capital assets, net	<u>\$ 778,814</u>	<u>\$ (31,095)</u>	<u>\$...</u>	<u>\$ 747,719</u>

4. LONG-TERM DEBT

Community Impact Bonus Loan Payable –The District secured a Community Impact Board Bonus Loan dated May 16, 1989, in the District's name for \$200,000. It bears an interest rate of two and one-half percent, with final payment due September 30, 2013. Annual payments of \$10,855 including interest are required to be paid until the debt is paid in full.

Annual debt service requirements to maturity for bonus loan payable are as follows:

Year Ending December 31	Business-type Activities		
	Community Impact Bonus Loan Payable		Total Principal and Interest
	Principal	Interest	
2006	\$ 8,982	\$ 1,873	\$ 10,855
2007	9,206	1,649	10,855
2008	9,437	1,418	10,855
2009	9,673	1,182	10,855
2010	9,914	941	10,855
2011-2013	27,925	1,310	29,235
	<u>\$ 75,137</u>	<u>\$ 8,373</u>	<u>\$ 83,510</u>

Change in long-term liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Bonds Payable Beginning Balance	New Additions	Reductions	Bonds Payable Ending Balance	Due Within One Year
Business-Type Activities:					
Bonus Loan Payable	\$ 83,686		\$ 8,549	\$ 75,137	\$ 8,982
Totals	<u>\$ 83,686</u>	<u>\$...</u>	<u>\$ 8,549</u>	<u>\$ 75,137</u>	<u>\$ 8,982</u>

5. BUDGET VARIANCES

During the year ended December 31, 2005, the District did not overspend their budget in the Enterprise Fund.

6. PENSION PLAN

The District did not have a retirement plan in force as of December 31, 2005.